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RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY  
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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 001664

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NEA/ELA  
NSC FOR ABRAMS/DORAN/SINGH  
TREASURY FOR GLASER/LEBENSON  
EB/ESC/TFS FOR SALOOM

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TAGS: [ECON](#) [EINV](#) [EPET](#) [SY](#)  
SUBJECT: PETROCANADA AND SHELL RECOMMIT TO SYRIA

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[1](#)B. DAMASCUS 196

Classified By: CDA Stephen Seche for reasons 1.5 b/d

[1](#)1. (C) Summary. The SARG,s annual exhibition to promote its oil and gas sector met with modest success. The UK and Canadian embassies both officially participated in the exhibition and promoted their companies further involvement in Syria. Only one US company, IPR, participated in the exhibition though five were listed on the program. Representatives from Western companies were unanimous in commenting that the sense of crisis, which had darkened their perspective on business in Syria last fall, had lightened considerably in recent months. The results of Syria,s most recent bid round are expected later this month with both PetroCanada and Royal Dutch Shell poised to expand their presence in the country. End summary.

[1](#)2. (U) From April 2 through 5, the SARG hosted its fifth annual oil and gas exhibition. Though the number of companies participating increased modestly over last year, 259 from 41 countries compared to 249, the increase appeared largely attributable to larger numbers of companies from Eastern Europe and Russia. Representatives of companies that participated this year commented that the level of business activity within the exhibition, however, fell far short of the high-water mark of 2003. Both the UK and Canadian embassies manned booths in the exhibition designed to promote their companies' greater involvement in Syria. Shell had an impressive display that won first prize, while Total conspicuously recycled the same display it used last year.

[1](#)3. (C) Though conference organizers notified us that five US companies were scheduled to participate in the exhibition, only one actually showed up, Improved Petroleum Recovery (IPR). IPR is a small independent, headquartered in Irving, Texas with its largest assets in Egypt. The company flew in its Egyptian-American President and CEO, Dr. M.K. Dabbous, and other top executives for the exhibition. Dabbous told the Charge that IPR is continuing to meet its exploration and investment commitments for its concession in northeastern Syria. According to the terms of its production sharing contract, IPR is required to acquire additional seismic data and drill two wells for a total investment of seven million dollars within the next two to three years. IPR, which holds its concession jointly with the Indian company ONGC, is still

evaluating existing data on the concession but plans to contract for additional seismic later this year. IPR executives commented that their exploration plans are hamstrung by both the lack of service companies operating in Syria and a worldwide shortage of drilling rigs, an investment delay that didn't seem to upset them.

¶4. (C) Unlike IPR, Houston-based and London-traded, Gulfsands Petroleum will start drilling its first well later this month. Gulfsands executives are optimistic and expect both the shallow well they will start this month and the deeper well they will drill in June to tap sizable reservoirs. Gulfsands arguably holds the most promising concession in Syria, also in the northeast, and has an ill-defined business relationship with Rami Makhoul, President Assad's first cousin. The company's executives say it would require very little investment in new infrastructure to move Gulfsands' oil to market as there already is a pipeline running through their concession that is owned by the Syria Petroleum Company (SPC) that has 80,000 bpd of spare capacity. Visiting Gulfsands COO, John Dorier, commented to us that the company's investment in Syria could rise sharply this year if the first two wells discover the amount and type of oil expected.

¶5. (C) Contrasting with their earlier reticence (ref A), both PetroCanada and Royal Dutch Shell are equally assertive and are also pursuing new investments. Both Shell and PetroCanada have entered multiple bids on the latest bid round and expect to win at least two concessions each later this month. Shell's general manager, Campbell Keir, told us recently that from a business perspective, Shell believes the crisis in Syria has passed. As a result, Shell is gauging

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the level of its business activity in the country based on its desire to renegotiate its oil field leases, which start coming due in 2008 through 2013. According to Keir, the Syrians have given Shell mixed signals on whether they are willing to extend the leases ) sometimes hinting Shell has made enough profit and the joint venture has outlived its usefulness. Keir readily admits that Shell has done very well on its investment in Syria and would very much like to renegotiate an extension. In the meantime, Shell is making itself useful to the SARG by taking on projects as small as upgrading the country's two oil refineries on a profit sharing contract at no cost to the SARG.

¶6. (C) PetroCanada's level of business activity in Syria has increased markedly since last December, when the company's board debated the merits of future involvement. PetroCanada was the largest company to fly in a group of executives specifically for the exhibition, and the only group to conduct extensive meetings with a range of SARG ministers, including Deputy Prime Minister for Economic Affairs Abdullah Dardari. The PetroCanada executives told us they were encouraged by what they heard from the Syrians and expected to begin negotiations for new production sharing contracts on two new concessions by the end of this month. In addition, PetroCanada executives expect to soon acquire Marathon's central area gas concession (ref B). PetroCanada general manager, Hisham Yazigi commented to us that his company is anxious to reinvest some of the profits it realized earlier this year from the sale of its share of a joint venture with Shell, and blamed the delay in acquiring the above gas concession on the unwillingness of Marathon managers to accommodate SARG "sensitivities."

¶7. (C) Total general manager, Hatem Nuseibeh, agreed with Shell and PetroCanada's assessment that the crisis for foreign businesses in Syria had passed. According to Nuseibeh, he was scheduled to leave Syria last fall but was extended by Paris-based executives who were nervous about the potential for political instability in the country to adversely affect Total's interests. Nuseibeh opined that now the situation is much different and the Europeans are

anxious to re-engage. From Nuseibeh's perspective, it is only the French that are holding back on deeper engagement. Nuseibeh commented that the difference between Total and Shell is that the French company was still not willing to pursue new investments in Syria. Nuseibeh said that his charge from Paris is to maintain a presence in Syria while avoiding any new short-term commitments. He emphasized that walking this fine line is not always easy as the SARG is pushing companies in the oil and gas sector to make new investments and increase their contribution to developing the sector.

18. (C) Comment. There has been a noticeable improvement in the outlook of foreign businessmen active in Syria since last fall when the country was regularly receiving negative international press coverage. PetroCanada has arguably moved the farthest from debating future involvement only four or five months ago to now being the most aggressive at pursuing new investment. Nuseibeh attributes PetroCanada's newfound assertiveness to the significant profit the company realized from its previous venture with Shell. According to Nuseibeh and others in the industry, the SARG's terms in the oil and gas sector are attractive to companies willing to overlook the issue of political risk. Feeding the re-engagement is a strong perception in the business community here that European capitals are now ready to re-engage with the SARG and, therefore, support new investment. The mood can be infectious, as a couple of representatives of US companies we recently talked with expressed some surprise when we shared our view of the situation and the attendant risks to their new investment.  
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